SOBEYS INC. ANNUAL REPORT 2000

Our strategy at work

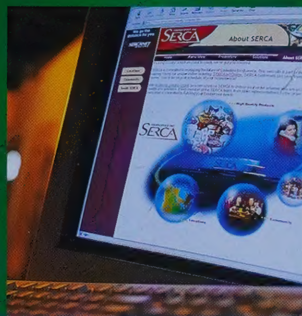
Sobeys

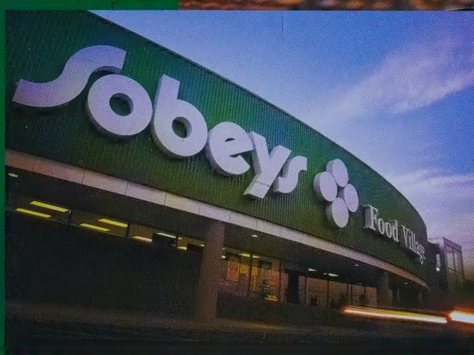
Our strategy at work

Since J.W. Sobey opened his first butcher shop in Stellarton, Nova Scotia more than 90 years ago, we have always aimed to deliver the best possible combination of service, selection and value to our customers. In today's consolidating food distribution industry, that takes the kind of scale and resources we achieved through the recent combination of Sobeys and the Oshawa Group.

Today, we are the second largest food distribution company in Canada, with annual sales of $11 billion, 1,371 stores in ten provinces, thousands of wholesale customers and the country's only national foodservice operation.

But the best is yet to come. Meeting the rising expectations of today's customers takes a growing network of modern stores, state-of-the art information and distribution systems, customer-focused marketing and merchandising programs and an old-fashioned focus on personal service. It's a strategy for success that's hard at work throughout our operations today, and it's the reason we have never been more optimistic about the future.





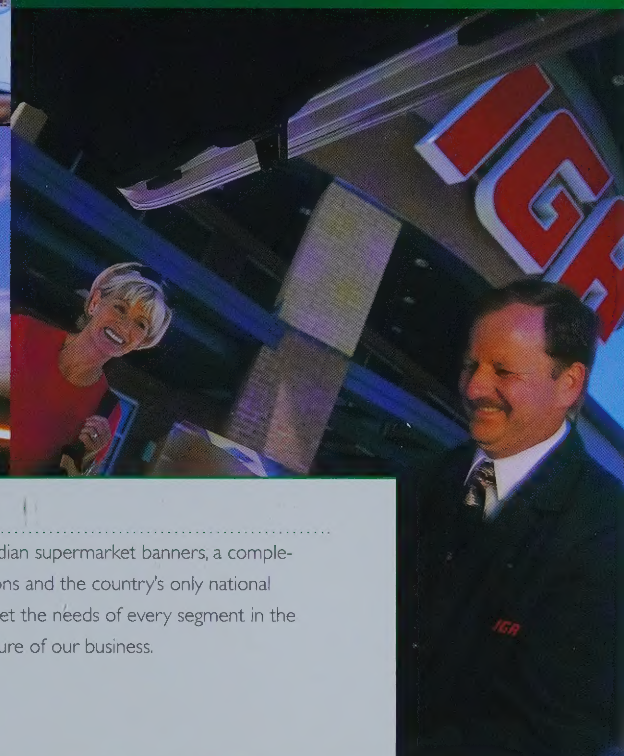


TABLE OF CONTENTS

FOLD OUT

Sobeys at-a-glance With a range of familiar Canadian supermarket banners, a complementary mix of franchised and corporate operations and the country's only national foodservice operation, Sobeys is positioned to meet the needs of every segment in the market. The map inside reveals the scope and nature of our business.

Financial and operating highlights

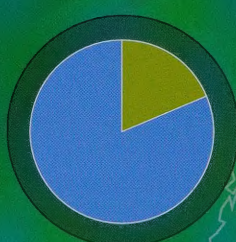
FEATURES

FINANCIAL REVIEW

Sobeys Inc. at a glance

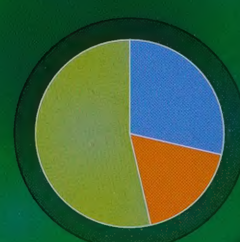
MARKET PRESENCE

Corporate Stores	419
Franchised Stores	952
Food Distribution Centres	25
Foodservice Operations	27
TOTAL	**1,423**



REVENUE
($11 billion)

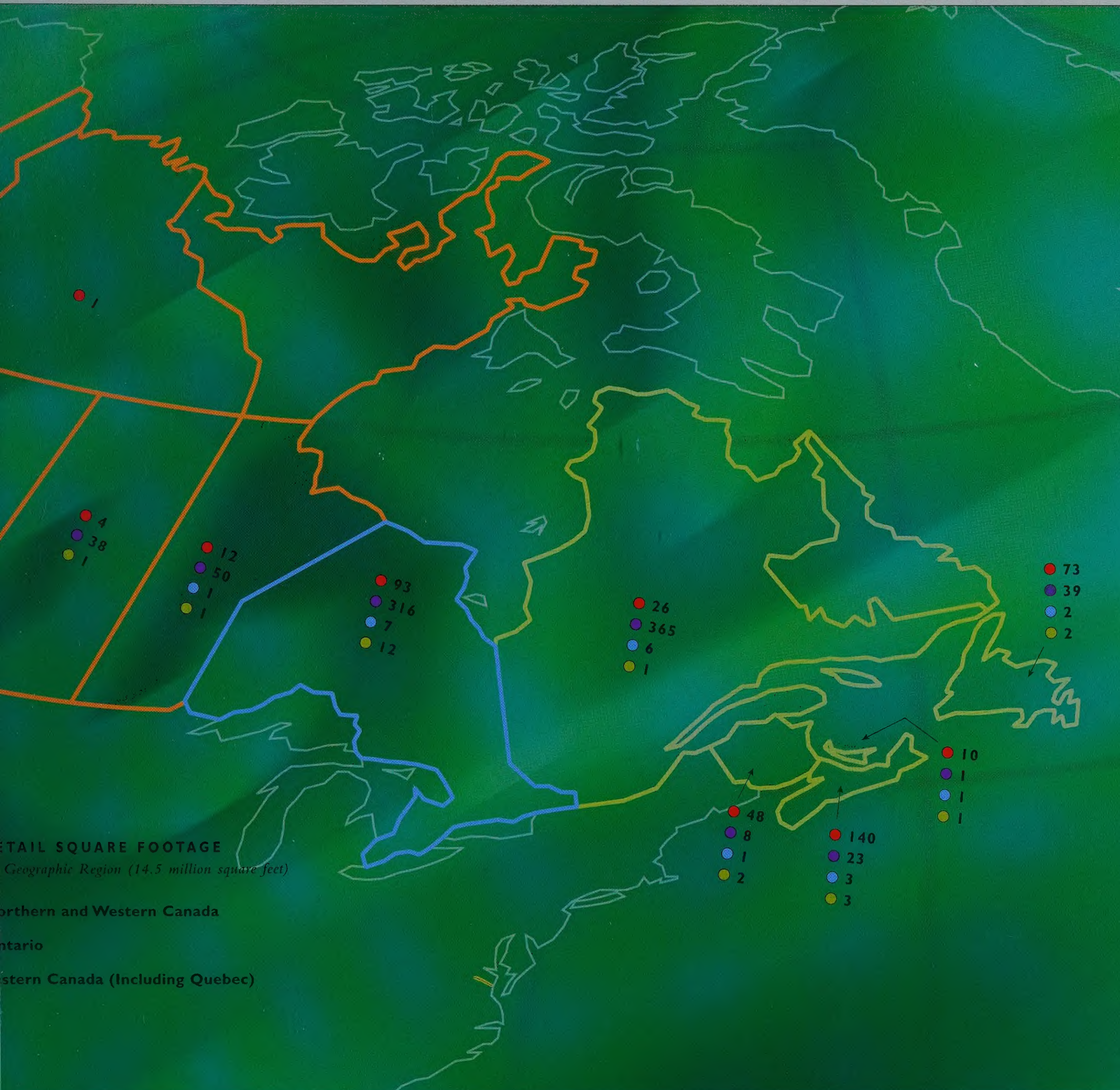
81.2% Food Distribution
18.8% Foodservice



17.7%
33.4%
48.9%

NORTHERN AND WESTERN CANADA

NORTHWEST TERRITORIES		BRITISH COLUMBIA		ALBERTA		SASKATCHEWAN		MANITOBA	
FOOD TOWN	1	IGA GARDEN MARKET	3	IGA GARDEN MARKET	48	IGA GARDEN MARKET	5	IGA GARDEN MARKET	10
TOTAL	**1**	IGA	3	IGA	53	IGA	15	IGA	27
		TOTAL	**6**	FOOD TOWN	17	FOOD TOWN	20	FOOD TOWN	24
				TOTAL	**118**	THRIFTY FOODS	2	PRICE CHOPPER	1
						TOTAL	**42**	**TOTAL**	**62**



ENTRAL CANADA

ONTARIO	
GA GARDEN MARKET	6
GA	137
OBEYS	33
NECHTEL	73
OODLAND	56
RICE CHOPPER	52
RICE CHECK	24
OOD TOWN	28
OTAL	**409**

QUEBEC	
IGA	238
SOBEYS	19
BONI CHOIX	119
LE MARCHÉS TRADITION	15
TOTAL	**391**

EASTERN CANADA

NEW BRUNSWICK	
SOBEYS	23
FOODLAND	7
NEEDS & GREEN GABLES	13
LOFOOD	5
LAWTONS	8
TOTAL	**56**

NOVA SCOTIA	
SOBEYS	38
FOODLAND	22
NEEDS & GREEN GABLES	62
LOFOOD	5
LAWTONS	36
TOTAL	**163**

PRINCE EDWARD ISLAND	
SOBEYS	4
NEEDS & GREEN GABLES	4
LOFOOD	2
LAWTONS	1
TOTAL	**11**

NEWFOUNDLAND	
SOBEYS	16
FOODLAND	37
NEEDS & GREEN GABLES	39
LAWTONS	20
TOTAL	**112**

Financial and operating highlights

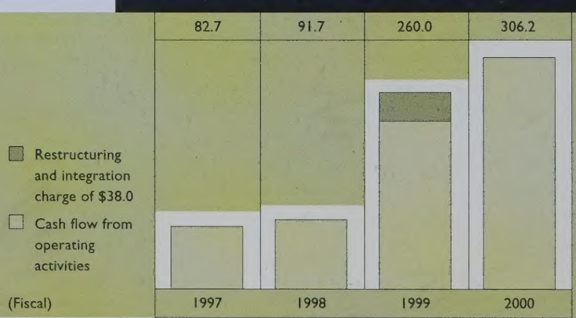
HIGHLIGHTS

- Exceeded $11 billion in consolidated fiscal 2000 sales.
- Achieved net earnings of $80.2 million or $1.43 per share.
- Surpassed fiscal 2000 goal of $35 million in annual integration synergies.
- Retired $117 million in long-term debt.
- Successfully integrated and repositioned private label programs.
- Completed modernization of Ontario food distribution network.

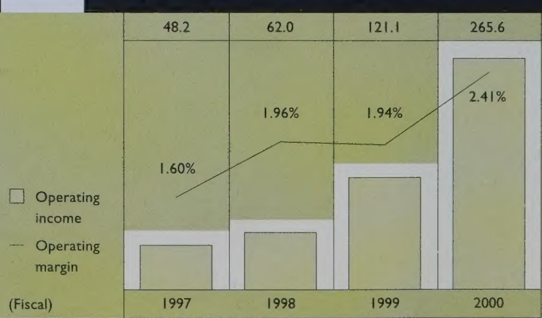
($ in millions, except per share amounts)	2000	1999
Operations		
Sales	$ 11,006.1	$ 6,231.8
Operating income	265.6	121.1
Earnings before restructuring and integration charge	80.2	39.1
Restructuring and integration charge	–	(47.1)
Net earnings	80.2	(8.1)
Cash flows from operating activities	306.2	260.0
Capital expenditures	207.3	265.8
Financial Position		
Total assets	2,891.0	2,878.8
Shareholders' equity	817.7	750.0
Per Share Information		
Earnings before restructuring, integration and goodwill charges	1.77	1.31
Net earnings	1.43	(0.22)
Cash flows from operating activities	5.47	7.12
Dividend rate	0.24	0.38
Book value	14.52	13.49
Share Price		
High	20.65	20.45
Low	16.05	14.50
Close	19.05	18.75

(Certain prior period's information was reclassified to conform to the current period's presentation)

Cash flow from operating activities *($ millions)*



Operating income and margin *($ millions)*



Letter to shareholders

(left to right): David F. Sobey, Chairman of the Board; Douglas B. Stewart, Vice-Chairman and Chief Executive Officer; John R. Sobey, President and Chief Operating Officer

One year ago, in our first annual report, we spoke of the highly complementary fit between Sobeys Inc. and the former Oshawa Group Limited. The acquisition created the second largest food distribution company in Canada with annual sales of $11 billion and a major presence across the country. It also unleashed the potential for immediate operating synergies and the opportunity to build a solid foundation for significant long-term growth.

Today, we are realizing those objectives. At the outset of the integration process, we committed ourselves to achieving a $35 million reduction in annual expenses during fiscal 2000 by consolidating procurement, improving the efficiency of the supply chain and otherwise modernizing and rationalizing our operations. Thanks to our unprecedented scale, and the skill with which our people managed the integration process, we exceeded that goal. We also set the stage to achieve $70 million in total integration synergies by the end of fiscal 2001. You can read more about our performance in the progress report that follows this letter.

RECORD FINANCIAL RESULTS

We also remained on target with our financial results. As expected, the December 1998 acquisition of Oshawa by Sobeys makes it difficult to draw "apples-to-apples" comparisons. Fiscal 2000 revenue was ahead 77% to $11 billion, mainly because it includes a full year of results from the former Oshawa operations compared to 22 weeks during the previous year. It is worth noting, however, that comparable or same store sales were up 2.6% or 2.2 percentage points in excess of food inflation.

Earnings, before restructuring and integration charges incurred last year, increased at a faster rate – up 136% to $176.7 million compared to fiscal 1999 – mostly the result of operating synergies that were generated during the year.

Earnings per share, before fiscal 1999 restructuring and integration charges – and which do not include amortization of goodwill and thus more accurately reflect the ongoing capacity of the business to generate profit – were up 34% to $1.77. Net earnings reached $80.2 million or $1.43 per share, compared to the net loss of $0.22 per share in 1999. Before consideration of the restructuring and integration charges incurred in fiscal 1999, net earnings per share were up 35%.

Continuing integration benefits and improvements in our management processes are expected to assist in the enhancement of future earnings.

We also made excellent progress in strengthening the balance sheet. Our targeted improvement of $100 million in working capital was exceeded. And, despite an ambitious capital investment program, we retired more than $117.7 million in debt during the past year.

While we are pleased that the benefits of the merger are materializing so quickly, we know the best is yet to come. As one of two national players in an industry that will continue to consolidate, we see tremendous potential to grow both the top and bottom lines of this business. Taking full advantage of this opportunity is a matter of delivering the best possible combination of service, selection and value to our customers.

OUR STRATEGY AT WORK

Making that strategy work requires an efficient distribution system and a contemporary store network that creates an exciting shopping experience for our customers. That's why we spent $207.3 million on the expansion and modernization of our food distribution network in fiscal 2000 – $386.2 million including expenditures by our franchisees and third party financing. Some of this spending was concentrated on the distribution network in Ontario, where two state-of-the-art, multi-temperature warehouses now replace several outmoded facilities. They've been equipped with an industry-leading EXE warehouse logistics system that has already generated significant productivity gains in Atlantic Canada and other parts of the chain where it is now installed. During the next year, EXE is scheduled for installation at all Sobeys distribution facilities across Canada.

Meanwhile, we have also begun to revitalize the store network, especially in Ontario where capital investment had not kept pace with other regions. System-wide, we built 48 new or replacement stores and expanded or modernized 103 others during fiscal 2000, increasing total square footage by 2.8%.

Next year, we expect that system-wide capital spending (including franchisees and third party financing), will increase by 66% to $641 million, or approximately 5.6% of sales. Now that a modern distribution system is in place, most of our investment will be directed at the store network. All development will take place within the context of our multi-banner store strategy, which is aimed at locating stores in a complementary manner that will appeal to the greatest possible number of customers in each of our markets.

The other part of the sales growth equation is building sales per square foot. We are continuing to do that through a number of initiatives, which are all designed to provide greater value to our customers. Many of them stem from the migration of best practices employed by each of our major operating divisions.

Fundamental to our goal of making Sobeys a more cohesive and effective organization is an SAP enterprise-wide management information system we are installing in partnership with IBM. One of the largest retail applications of its kind in the world, the new system is now operational in the Atlantic region and partially in Ontario, where it is enabling a number of capability-enhancing initiatives in purchasing, merchandising and supply chain management. Rollout into the rest of Ontario, Quebec and western Canada is underway and will be completed within the next 12 months. SERCA, our Foodservice operation, is scheduled for conversion in fiscal 2002.

Because many of our top 40 suppliers run SAP – the new system will allow us to coordinate business much more effectively due to its inherent business-to-business capabilities. Combined with advanced point-of-sale scanning technology, we have already begun to capitalize on the promise of real-time information. On the purchasing side, we are sharing information that helps suppliers better utilize production capacity and fine-tune deliveries. For us, that means lower product costs, minimal inventory and timely replenishment. That's a big win for Sobeys and our suppliers.

Of course, the ultimate beneficiary of such partnerships is the customer, and the same technology is allowing us to understand and meet their needs as never before. Our *Club Sobeys* loyalty program and our *Air Miles* program in Quebec, both of which reward regular customers with a growing range of benefits, are the key to a number of initiatives that are designed to make sure we deliver the right products to the right customers at the right time.

Every year, more of those products are *Sobeys'* private label brands. During the past year, we assessed the merits of thousands of items, consolidating them into an even stronger range of premium *Our Compliments* and value-priced *Smart Choice* products. By the end of the first quarter, we will have more than 3,000 private label products on our store shelves – more than double the number available a year ago. Despite the disruption of merging two private label programs, we managed to post an 8.3% annual gain in private label sales during the process.

The acquisition of Oshawa by Sobeys provided a unique opportunity to bring together some of the industry's best operating managers and they have responded well to the extraordinary challenges of the past year.

Our own brands are an important part of *Sobeys'* growth strategy because they significantly enhance profitability while strengthening our negotiating position with national brand manufacturers. They also hold tremendous opportunity for growth. During the next two years, we intend to sustain double digit sales growth in our private label brands.

At the same time, national brands remain an essential part of our business. Two of our most important initiatives – category management and national procurement – are aimed at improving the management of our product portfolio and capitalizing on the collective buying power of our operations. Both of these initiatives are benefiting from closer relationships with our suppliers.

FIRST IN FOODSERVICE

While the food distribution business has made major gains during the past year, we should not forget the contributions of the fastest growing segment of our business. SERCA is the # 1 foodservice company in Canada and the only one that can meet the requirements of national restaurant and hotel chains from coast to coast. During the past year, SERCA continued to strengthen that position through a number of important initiatives. One of the most important is an enhanced private label program that now includes more than 600 items. These and other products are available through a growing range of channels, including a remarkable Internet ordering system that is the most advanced in the foodservice industry. Like the rest of the company, SERCA has also focused on minimizing distribution costs. The September 2000 opening of a new 265,000 sq. ft. warehouse in Mississauga, Ontario will complete the consolidation of the SERCA Ontario distribution network from 11 to five centres and provide Ontario foodservice customers with high-quality handling of products destined for their use.

WORKING TOGETHER

While it is customary to acknowledge the efforts of employees in the annual report, we truly believe that the success of the past year would not have been possible without the extraordinary contributions of our more than 33,000 employees as well as our franchisees. Thanks to them, we have been able to achieve what we promised in the short-term, and we have set the stage for profitable long-term growth in the years ahead.

Looking back, it is evident that the great fit between our two predecessor companies is one of the main reasons Sobeys has been able to capture the benefits of integration so swiftly. We share a heritage of strong, independent management and decentralized, customer-focused operations. The acquisition of Oshawa by Sobeys provided a unique opportunity to bring together some of the industry's best operating managers and they have responded well to the extraordinary challenges of the past year.

At the same time, we have benefited from a renewed sense of commitment from our franchise owners and store and branch managers across Canada. They continue to enjoy a high degree of autonomy because they know their customers best. They have also been enthusiastic about the kind of support we can provide at the corporate level – from streamlined distribution to new merchandising and marketing programs that are boosting sales and profitability. It's a recipe for success that has worked well in our corporate and franchise operations for many years and we are confident it has found fertile ground in the new markets we serve today.

Sincerely,

DAVID F. SOBEY
Chairman of the Board

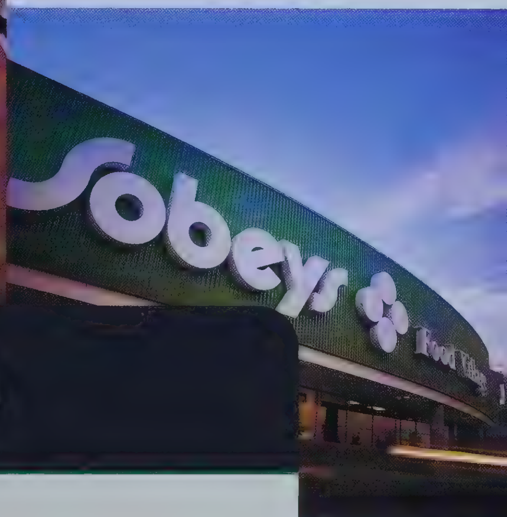
DOUGLAS B. STEWART
Vice-Chairman and Chief Executive Officer

JOHN R. SOBEY
President and Chief Operating Officer

Fiscal 2000 – a progress report

Following the December 1998 acquisition of The Oshawa Group by Sobeys, we announced several financial and operating objectives for the first full year of our combined operations. The table below summarizes our performance:

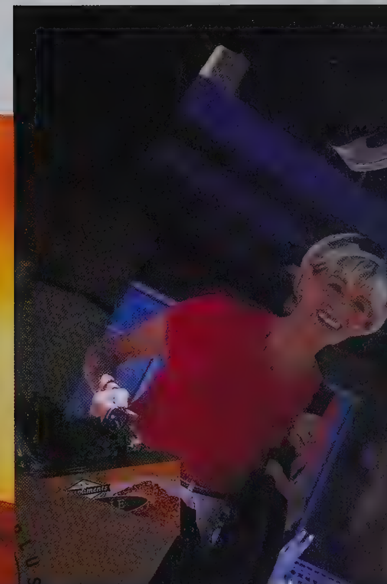
What We Said:	What We Did:
Net earnings per share of $1.40 in 2000.	Net earnings per share of $1.43.
$35 million in integration synergies in fiscal 2000, $70 million by end of fiscal 2001.	Exceeded first year savings, on target for full $70 million in annual savings by the end of fiscal 2001.
$100 million in working capital improvement.	Working capital target achieved, with net acquisition debt reduced by $224 million since the Oshawa acquisition.
Capital spending of $400 million.	$386.2 million in total (corporate, franchise and third-party) spending.
More efficient distribution.	Expansion of Milton and construction of Whitby facilities completed, adding 755,000 sq. ft. $14 million in annual savings projected.
Merge private label program.	Successful. *Our Compliments* and *Smart Choice* programs expanded and upgraded with the addition of more than 1,000 items.
Debt to capital ratio under 65%.	53% as at end of fiscal 2000.
Debt to EBITDA of less than 3.5X.	2.6 times at end of fiscal 2000.
Adopt best practices.	Formal programs reviewed at regular management committee meetings.
Implement SAP in Atlantic region, then nationally.	All four operations in Atlantic Canada converted. National rollout over next two years.



Our strategy at work

Fiscal 2000 was the first year in which Sobeys enjoyed the full impact of its December 1998 acquisition of the former Oshawa Group. With annual sales of more than $11 billion, a complementary mix of popular banners such as *IGA, Sobeys, and Price Chopper* and *SERCA*, the largest foodservice operation in Canada, we are well positioned for growth in a consolidating industry.

As promised, the new Sobeys quickly took advantage of the many synergies made available by the acquisition, generating efficiencies of more than $35 million in fiscal 2000 and setting the stage to reach $70 million in total integration synergies by the end of the current fiscal year. Far more significant, however, was the progress we made in advancing our mission to provide customers with the best combination of service, selection and value in the industry. The following pages illustrate some of the strategies we are pursuing to realize that goal, today and in the years ahead.



Expanding our presence

OUR STRATEGY AT WORK

It takes unprecedented scale to deliver the value customers demand. And it requires enormous investments in stores, distribution centres and technology. Those simple truths figured prominently in the acquisition of Oshawa by Sobeys almost two years ago and they are the reason we continue to expand our presence across the country.

AN AMBITIOUS INVESTMENT PROGRAM

Expanding our presence requires a significant capital investment in our distribution system as well as the store network it supports. In fiscal 2000, Sobeys devoted $207.3 million to the expansion and modernization of its physical and other assets. With allowance for expenditures by franchisees and third party financing, total system-wide capital spending reached $386.2 million. This year, Sobeys' system-wide capital spending is expected to increase by 66% to $641 million, over 78% of which will be directed at retail store projects. Building activity is expected to include 52 new stores, the replacement or enlargement of 22 others, and more than 600 renovation projects.

A MODERN DISTRIBUTION NETWORK

In fiscal 2000, we focused our attention on the modernization of the distribution network, especially in Ontario. The expansion of the Milton, Ontario distribution centre, and the construction of a new 420,000 sq. ft multi-temperature warehouse in Whitby, have allowed us to retire outdated facilities and save more than $14 million a year in future operating expenses. More importantly, these facilities accommodate a broader product offering while providing the capacity we need to support an expanding store network.

We also completed the construction of 48 new and replacement stores and expanded or renovated an additional 103 locations, mostly in support of the *IGA, Price Chopper* and *Sobeys* banners. And, we converted 18 of our largest corporate *IGA* stores in Ontario to the *Sobeys* banner as part of our multi-banner strategy, that's aimed at creating distinct value propositions for different consumer segments in each market. Our strategy is to position each of our banners in a complementary relationship that serves the greatest possible number of customers in a given geographic region while maximizing our return.

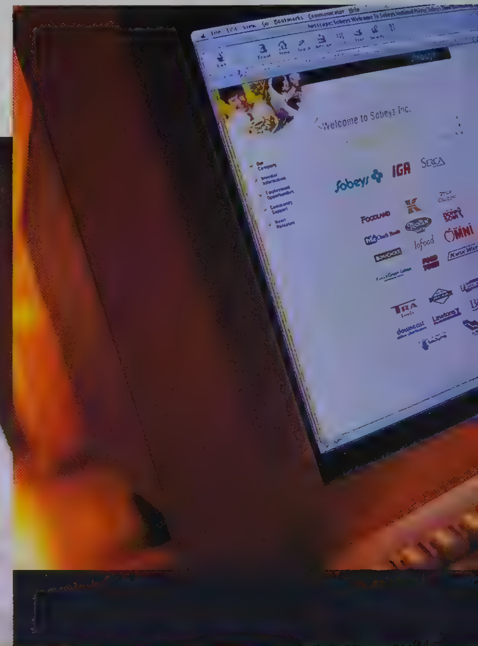
System-wide capital expenditures reached a record $386.2 million in fiscal 2000 and are projected to increase by more than 66% next year. Most of this spending is aimed at the expansion and modernization of our food distribution network – particularly the *IGA, Sobeys* and *Price Chopper* banners – and to support the growth of *SERCA,* Canada's largest foodservice operation.

A BANNER FOR EVERY MARKET

For instance, a growing number of our 133 *Sobeys* corporate stores are designed to meet the needs of shoppers who want a wide assortment and full service in a pleasant, modern environment. This superstore format is up to 60,000 sq. ft. in size and features farm-fresh produce, full-line bakeries, extensive prepared meal departments and other services such as in-store pharmacies, dry cleaning and banking.

With 545 stores from Quebec to British Columbia – our neighborhood *IGA* stores are aimed at suburban and mid-sized communities. At 15,000 to 45,000 sq. ft., *IGA* is our "neighborhood" store banner, emphasizing fresh departments and the kind of personalized service that appeals to discriminating customers. During the past year, our modernization of the *IGA* network included the expansion of the exciting *Garden Market* format – with its emphasis on appealing fresh departments – in 72 stores.

Price Chopper is a 20,000 to 40,000 sq. ft. discount format that meets the needs of the most price sensitive consumers in medium to large size urban areas – one of the fastest growing segments of the market. Although this banner offers a full range of value added departments such as in-store bakeries and deli counters, it succeeds in under-pricing traditional supermarkets with a simplified store structure and a low cost operating approach. During fiscal 2000, 12 new stores were added to the *Price Chopper* network, increasing the total number of locations to 53.



Today's consumers have more choice and less time than ever before. That's why we continue to build our brand with an emphasis on personal service and innovative offerings such as the *Our Compliments* and *Smart Choice* private label programs, enhanced marketing channels such as Sobeys award-winning website, delicious, ready-to-serve meals and customer loyalty programs that reward our best customers.

Sobeys also serves a growing number of affiliated and independent stores that extend our reach into other important markets. In more rural parts of the country, we are represented by 298 franchise stores operating under banners such as *Foodland, Knechtel, Food Town* and *Les Marchés Tradition*. We also serve the distinct needs of the convenience market through banners such as *Green Gables, Needs* and *Boni Choix* as well as hundreds of affiliated and independent operators across Canada.

Each of these banners – from small towns to major markets, and from superstore to corner convenience store – is designed to meet the distinct needs of a specific segment of the market. Increasingly, it's an approach that will generate the highest total return on investment because it leverages the company's infrastructure to reach our customers through a number of complementary marketing channels.

Building our brand

The success of our multi-banner strategy depends upon numerous initiatives aimed at increasing our understanding of the customer, creating unique products and services that address their needs, and developing the systems and business practices that allow us to lower costs and deliver more value all the time.

OUR STRATEGY AT WORK

AN UNWAVERING FOCUS ON THE CUSTOMER

Customer loyalty programs such as *Club Sobeys* in Atlantic Canada and *Air Miles* in Quebec are an integral part of the process. These programs, which provide electronic coupons and other valuable rewards to regular customers, also allow us to better understand consumers' preferences and shopping patterns. During the year, the company finalized the rollout of *Club Sobeys* in all corporate stores in Atlantic Canada and successfully launched *Air Miles* in Quebec. We also began to assess the merits of different loyalty program models for our corporate and franchise networks in Ontario and western Canada.

CONTINUOUS INNOVATION

Customer focus is also behind the changing look of our stores, from in-store pharmacies to newer services such as banking and photo finishing. In partnership with TD Bank, we launched in-store banking in six stores in Atlantic Canada during the past year and plan to open another four locations in fiscal 2001. A similar partnership with Bank of Montreal has introduced the same concept in Quebec. Customers are also enthusiastic about on-site photo finishing services that now includes 16 store locations with an additional 64 photo drop-off sites.

Some innovations involve entirely new marketing channels. Our Internet ordering and home delivery service – *IGA Cybermarché* – now extends to more than 220 stores in Quebec. During the past year, the site has been given a friendlier interface and an advanced profiling system that streamlines the ordering process by "remembering" each customer.

MORE AND BETTER PRIVATE LABEL BRANDS

Private label brands, are another way in which Sobeys creates distinct value propositions. Our strategy is to offer our customers an ever-expanding range of *Our Compliments* premium and *Smart Choice* value-based products that feature quality as good as, or better than, national brands, at a distinct price advantage. For Sobeys, the benefits of a strong retail brands program include unique products, enhanced profitability and an improved negotiating position with national brand manufacturers.

During the past year, we took on the task of merging two private label programs, carefully selecting the best of both in the process. We also were able to significantly reduce annual procurement costs thanks to larger economies of scale.

In fiscal 2000, the number of items available through the *Our Compliments* and *Smart Choice* programs increased by more than 60% to 2,369. Over the next two years, we intend to introduce another 1,000 items, with the objective of sustaining double digit sales growth in private label brands.

Improving our productivity

Understanding customers and efficiently satisfying their needs requires an enormous investment in technology. That's one of the reasons our industry continues to consolidate. As the second largest food distribution company in Canada, we have the resources to keep pace.

ADVANCED INFORMATION SYSTEMS

At the heart of our technological progress is an SAP enterprise-wide information system that we're installing throughout our operations in partnership with IBM. The most ambitious SAP retail installation in North America in terms of the number of modules it incorporates, the new system will link all purchasing, merchandising, accounting and supply chain management functions into a single, seamless network – one that will help focus resources on the customer while eliminating non-value adding activities from our business.

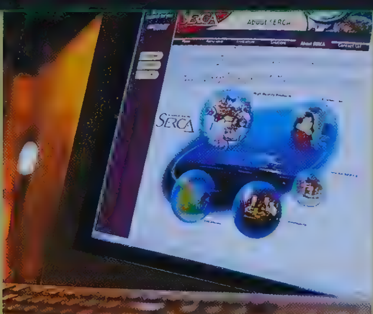
CATEGORY MANAGEMENT

One example of that approach is our category management initiative, which examines our business along the lines of distinct product categories – from beverages to laundry products – that reflect the decision-making processes of consumers. The magic of category management is that it provides Sobeys and its suppliers a framework to consider the impact of all buying and merchandising decisions in a way that enhances profitability and market share at the same time.

Category plans have been built and executed for all banners in Atlantic Canada and results to date, which are assessed by way of a disciplined measuring system, have exceeded expectations. In total, the project involves more than 250 category plans to be phased in over a two-year period.

MORE EFFICIENT PARTNERSHIPS

Supply chain management represents another substantial opportunity for productivity improvement at Sobeys and it is where the business-to-business activities enabled by SAP will become more important. Our new enterprise-wide information system enhances our ability to transact business on-line with major suppliers, many of whom also run



Advanced technology continues to play a pivotal role in our efforts to reduce operating costs and deliver better value to our customers. Clockwise from top-left: designing the store shelf with category management software, retrieving product more quickly with computer-directed high-reach lift trucks, saving our customers money with SERCA's unique Internet ordering service, keeping track of business with point-of-sale scanning technology.

SAP systems. During fiscal 2000, we initiated several pilot projects in pursuit of this objective. Our efforts have also been aided by the installation of point-of-sale scanning technology that automatically updates the cash register while directing data into our customer loyalty, inventory replenishment, billing and other corporate systems.

BETTER LOGISTICS

Advanced technology has also allowed us to revolutionize our warehousing and distribution system. The industry leading EXE logistics management system, which is scheduled for implementation throughout our operations by the end of this year, automatically directs and monitors the movement of product – from receiving to storage to sorting to shipping. To date, EXE has resulted in significantly faster throughput, higher productivity, and lower costs.

Financial review

Management's discussion and analysis

This section of the report provides management's discussion and analysis of the financial condition of Sobeys Inc. ("Sobeys" or "the Company") and its financial performance for the year ended May 6, 2000. As part of this discussion, an assessment is made as to the outlook of each business segment, the financial condition of the Company, and the impact of risks. This discussion should be read in conjunction with the consolidated financial statements, including the notes that accompany them, found on pages 25 to 35, and the information presented in the summary of selected financial data, found on page 4. All footnotes refer to the Notes to Consolidated Financial Statements.

BUSINESS STRATEGY

Sobeys is the second largest food distributor in Canada in terms of sales, number of supermarkets and geographic presence. It is also the country's only national foodservice distributor. The Company's operations are diversified across Canada.

The Company's goal is to exceed its customers' expectations by operating the best food distribution and foodservice businesses in Canada – to be market driven, focused on superior execution, and supported by effective operations.

When comparing fiscal 2000 results to the previous year, it is important to note that the acquisition of The Oshawa Group Limited ("Oshawa") in fiscal 1999 (Note 2) was accounted for using the purchase method. This has resulted in the inclusion, for fiscal 1999, of 22 weeks of Oshawa's results from the date of the acquisition, while fiscal 2000 contains a full year of Oshawa's operations. In addition, fiscal year 2000 contained 53 weeks of operations compared to 52 weeks in fiscal 1999. Accordingly, fiscal 2000 results are not directly comparable to the prior year's results.

RESULTS OF OPERATIONS

Overview

In fiscal 2000, Sobeys achieved strong sales and net earnings per share growth, reflecting the impact of a full year of Oshawa's operating results and the benefits of integration synergies. The Company enjoyed a $4.8 billion growth in sales over last year, with the former Oshawa business contributing 88.3% of this increase. Net earnings per share rose to $1.43 from the $0.22 per share loss in fiscal 1999. Before consideration of a pre-tax restructuring and integration charge of $85.1 million (Note 8) recorded in the fourth quarter of fiscal 1999, net earnings per share in fiscal 2000 were up 33.6% over fiscal 1999. The integration of the Sobeys and Oshawa operations has resulted in improved efficiencies and significant cost savings. Management believes further integration synergy opportunities exist and that they will be achieved.

In fiscal 2000, the Company opened or replaced 3 *Sobeys* (1999 – 8), 20 *IGA* (1999 – 7) and 12 *Price Chopper* (1999 – 1) banner stores. The capital program also included the renovation or expansion of 9 *Sobeys* (1999 – 10) and 58 *IGA* (1999 – 15) banner stores as well as the investment of $100.2 million for the expansion and modernization of the Company's distribution network. At fiscal year-end 2000, the Company operated 1,371 stores (comprised of 419 corporate stores, 952 franchised stores), 25 food distribution centres, and 27 foodservice distribution centres. The Company's total retail selling area increased to 14.5 million square feet by fiscal year-end, up 2.8% from 14.1 million square feet in fiscal 1999.

The following table illustrates selected items from the consolidated statements of earnings as a percentage of total sales.

Percentage of total sales *(except per share amounts)*	F2000	F1999	F1998
Sales	100%	100%	100%
Cost of sales, selling and administrative expenses	96.7	96.9	96.7
Depreciation	0.9	1.2	1.4
Operating income (before goodwill charges)	2.4	1.9	2.0
Interest expense	0.8	0.7	0.3
Restructuring and integration charge	–	1.4	–
Earnings (loss) before investment income			
and minority interest	1.6	(0.2)	1.6
Investment income	–	–	0.1
Income taxes (recovery):			
Restructuring charge	–	(0.6)	–
Other operations	0.7	0.4	0.5
Goodwill charges **(NOTE 1)**	0.2	0.1	–
Net earnings (loss)	0.7	(0.1)	1.2
Net earnings (loss) per share	$ 1.43	$ (0.22)	$ 1.65

SALES

Consolidated sales in fiscal 2000 reached $11.0 billion, a 76.6% increase over fiscal 1999. The bulk of this growth can be attributed to the inclusion of a full year results of the former Oshawa operations in fiscal 2000 compared to only 22 weeks in fiscal 1999. The impact of an additional 31 weeks results of the former Oshawa operations in the current year's sales accounted for $4.2 billion or 88.3% of this increase. Fiscal year 2000 contained 53 weeks of operation as compared to 52 weeks in fiscal 1999. This additional week accounted for approximately $206 million of the fiscal 2000 sales increase (Oshawa – $134 million; Sobeys – $72 million). On a proforma basis, after allowing for this additional week in the current year, and adjusting fiscal 1999 to include results of the form former Oshawa operations for a full 52 weeks, the year-over-year sales growth rate would have been 7.6%. In both fiscal 2000 and fiscal 1999, price inflation was not a significant factor in the sales growth.

The table below presents Sobeys' sales, operating income, operating margins, and trading margins on a comparative basis for fiscal 2000 and 1999.

($ millions except margins)	F2000	F1999
Sales		
Food distribution	$ 8,936.3	$ 5,173.5
Foodservice	2,069.9	1,058.3
Consolidated	$ 11,006.1	$ 6,231.8
Trading profit (EBITDA)		
Food distribution	$ 318.3	$ 168.4
Foodservice	45.3	25.1
Consolidated	$ 363.6	$ 193.5
Trading margin		
Food distribution	3.56%	3.25%
Foodservice	2.19%	2.37%
Consolidated	3.30%	3.10%
Operating income		
Food distribution	$ 231.8	$ 103.5
Foodservice	33.8	17.6
Consolidated	$ 265.6	$ 121.1
Operating margin		
Food distribution	2.59%	2.00%
Foodservice	1.63%	1.66%
Consolidated	2.41%	1.94%

OPERATING INCOME

The Company achieved a significant improvement in operating results in fiscal 2000. Operating margin rose to 2.41%, from 1.94% in fiscal 1999. Operating income grew 119% or $144.5 million from fiscal 1999 to reach $265.6 million in the current year, largely due to the inclusion of results of the former Oshawa operations for a full year. Trading margin (EBITDA/sales – or earnings before interest, taxes, depreciation and amortization divided by sales) increased to 3.30% from 3.10% in fiscal 1999. The favorable margin trends reflect the Company's strategy to improve and rationalize all aspects of its supply chain management, generate economies of scale in procurement, expand the private label and customer loyalty programs, as well as to foster core competencies such as enhanced merchandising and category management techniques. The integration of the Sobeys and the former Oshawa operations will continue to provide the benefits associated with running higher volumes through a fixed cost base.

In fiscal 2001, management expects continued revenue and earnings growth, supported by the significant planned capital investments in stores and support services, further development of the SERCA foodservice business, as well as the ongoing benefits from the integration and development of the Oshawa and Sobeys businesses.

DEPRECIATION AND GOODWILL CHARGES

Depreciation expense increased by 35.4% to reach $98.1 million in fiscal 2000 although, expressed as a percentage of sales, depreciation dropped to 0.9% in fiscal 2000 compared to 1.2% in fiscal 1999. Total depreciation and goodwill charges amounted to $117.6 million or 1.07% of sales in fiscal 2000 compared to $81.8 million or 1.31% of sales in fiscal 1999. The dollar increase in depreciation and goodwill charges can be attributed to: *(i)* Sobey's fiscal 2000 capital expenditure program totaling $207.3 million, and *(ii)* the impact of a full year of the former Oshawa operations, versus only 22 weeks in fiscal 1999.

FINANCING COSTS

Interest expense was $88.9 million, compared to $46.3 million recorded in fiscal 1999. Interest on long-term debt increased $33.7 million while interest on short-term debt, net of interest income, increased by $8.9 million from the prior fiscal year. The majority of this change is due to the cost of financing the Oshawa acquisition for 53 weeks versus 22 weeks in fiscal 1999.

Sobeys remains committed to a debt reduction program that will lower the cost of borrowing as illustrated in the debt section of this analysis. In fiscal 2000 a 37.5 basis point reduction in the interest rate charged on the majority of existing debt was realized. Further reductions in the interest rate are anticipated as planned debt refinancing is completed as described below under "Recapitalization Plan" and Note 18.

NET EARNINGS

Net earnings rose to $80.2 million ($1.43 per share), an $88.3 million increase in earnings from the $8.1 million loss ($0.22 loss per share) recorded in fiscal 1999. Excluding the after-tax restructuring charge of $47.1 million recorded in the prior year, net earnings increased $41.2 million from the adjusted $39.1 million or $1.07 per share achieved in fiscal 1999. Net earnings are forecast to continue to increase in fiscal 2001, as Sobeys business strategy is executed and as the benefits of the integration of the former Sobeys and the former Oshawa businesses continue to materialize.

SEGMENTED RESULTS

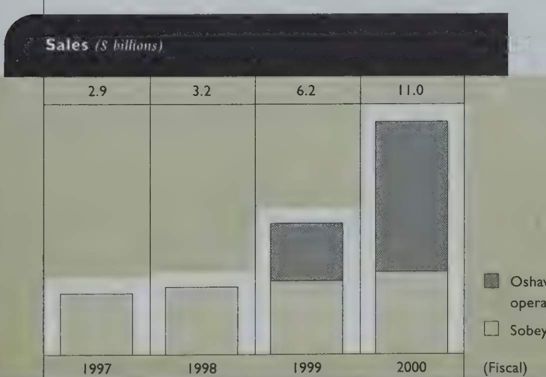
Sobeys operates principally in two business segments through: *(i)* Food Distribution, which represented 81.2% of Sobeys' total fiscal 2000 sales and 87.3% of total operating income, and *(ii)* Foodservice (SERCA), which represented 18.8% of total fiscal 2000 sales and 12.7% of operating income.

The Company's Food Distribution operations distribute food products through corporate and franchised retail stores and distribution networks to independent accounts across the country. SERCA Foodservice Inc., the Company's foodservice operation is the largest and only national foodservice operation in Canada, with a presence in every province.

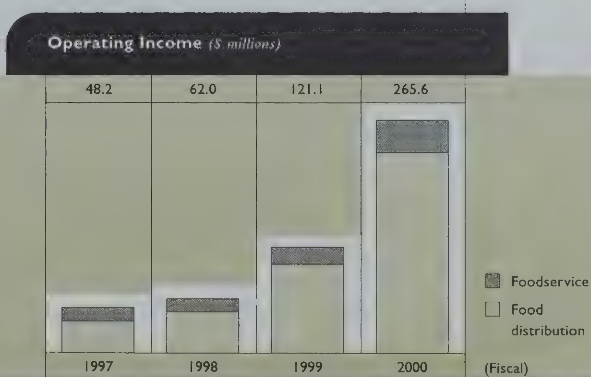
FOOD DISTRIBUTION

Sales

Food Distribution sales reached $8.94 billion in fiscal 2000, a 72.7% increase from $5.17 billion in fiscal 1999. The impact of an additional 31 weeks results from the former Oshawa operations in fiscal 2000 contributed $3.3 billion or 87.7% of this increase. The extra week in fiscal 2000 accounted for approximately $168 million of the sales increase (Oshawa – $106 million; Sobeys – $62 million). The benefits of higher same-store sales, modest food inflation of 0.4% and new retail selling area added during the year accounted for the remaining growth over last year. Comparable store sales, which exclude results from new and expanded stores on a 52-week basis in both years presented, increased



An extra 31 weeks results of the former Oshawa operations contributed to $4.2 billion or 88.3% of this year's increase.



Operating Income grew by 119% or $144.5 million largely due to inclusion of results of the former Oshawa operations for a full year in fiscal 2000.

2.6% in fiscal 2000. In addition, after adjusting for the effects of Canadian food price inflation of 0.4%, real comparable same store sales for all banners rose by 2.2% and net square footage grew by 2.8% or 424,164 sq. ft. in fiscal 2000. On a proforma basis, after allowing for the additional week in fiscal 2000, and adjusting fiscal 1999 to include results from the former Oshawa operations for a full 52 weeks (to $8.2 billion), the year-over-year sales growth rate would be 6.5%.

Comparable same store sales *(52 weeks)*	Before inflation adjustment	Adjusted for 0.4% food inflation
All banners	2.6%	2.2%
Sobeys store banner	2.3%	1.9%
IGA store banner	2.9%	2.5%

This growth was supported by $386.2 million (1999 – $265.8 million) in total capital expenditures, which raised total retail store square footage to 14.5 million (1999 – 14.1 million sq. ft.).

During fiscal 2000, as part of its sales growth initiatives, the Company continued its focus on enhancing the *Club Sobeys* loyalty program and the *Air Miles* program in Quebec. *Club Sobeys* members are rewarded with additional discounts on featured items as well as Club points that can be redeemed for future grocery purchases. *Air Miles* members are awarded *Air Miles* reward miles as a result of their grocery purchases. Increased use of the *Club Sobeys* and Air Miles loyalty database to better understand customer behavior is an important part of the Company's marketing and merchandising programs.

It should be noted that the acquisition of the former Oshawa operations in fiscal 1999 originally added 105 corporate stores and 842 franchised stores, significantly expanding Sobeys base in Quebec and Ontario as well as creating a large presence in western Canada. One year later, at the end of fiscal 2000, Sobeys had a total of 1,371 stores, comprised of 419 corporate stores and 952 franchised stores. The Company's stores now operate under a range of corporate and franchised retail banners that includes *IGA, Sobeys, Foodland, Price Chopper, Les Marchés Tradition, Boni Choix, Knechtel, Price Check Foods, Lofood, Needs, Green Gables, Food Town* and *Lawtons Drugs*. Corporate stores currently average 18,100 square feet in size whereas the average size of the franchised stores is 13,000 sq. ft.

Banners	Corporate stores	Franchised stores	Totals
IGA	38	507	545
Sobeys	133	–	133
Foodland	2	120	122
Price Chopper	32	21	53
Knechtel	–	73	73
Price Check	24	–	24
Lawtons	60	5	65
Food Town	–	90	90
Lofood	11	1	12
Needs & Green Gables	117	1	118
Boni Choix	–	119	119
Other banners	2	15	17
Totals	419	952	1,371

As of fiscal 2000 year-end, the proportion of retail store square footage by region across Canada was: 17.7% Western; 33.4% Ontario; and 48.9% Eastern (includes Quebec). The capital expenditure program in fiscal 2001 includes plans to grow retail square footage by 13.2%, with a breakdown as follows: western Canada – 16.4%, Ontario – 32.5%; eastern Canada (including Quebec) – 51.1%.

Operating income

In fiscal 2000, Food Distribution operating margin rose to 2.59% compared to 2.00% of sales in fiscal 1999. Operating income increased $128.3 million from fiscal 1999 to reach $231.8 million in fiscal 2000. This favorable performance is mainly attributable to the inclusion of results of the former Oshawa operations for a full year in fiscal 2000, versus 22 weeks in fiscal 1999. The impact of ongoing cost reduction and integration efforts coupled with migration of best practices across the chain and the ongoing expansion of the Company's higher margin private label program should continue to enhance operating results.

FOODSERVICE

Sales

Sales for fiscal 2000 reached $2.07 billion (1999 – $1.06 billion), a 95.6% increase from the previous year. Inclusion of the results of the former Oshawa operations for an additional 31 weeks added $914 million or 90.5% of this $1.01 billion increase. The extra week in fiscal 2000 accounted for approximately $38 million of the sales increase (Oshawa – $28 million; Sobeys – $10 million). On a proforma basis, after allowing for this additional week in the current year, and adjusting fiscal 1999 to include results of the former Oshawa operations for a full 52 weeks, the sales growth rate would be 12.6%.

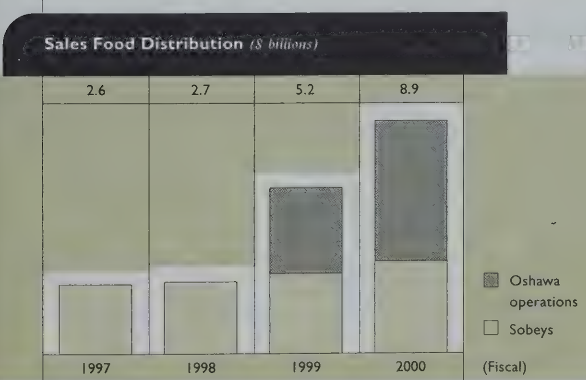
Operating income

In fiscal 2000, Foodservice operating margin declined slightly to 1.63%, from 1.66% in the previous year. Operating income (EBIT before goodwill charges) increased $16.2 million from fiscal 1999 to reach $33.8 million in fiscal 2000. The inclusion of the former Oshawa operations for a full year in fiscal 2000 versus 22 weeks in fiscal 1999 accounted for the bulk of this increase. The Company continues to realign traditional supply arrangements with the food distribution business and rationalize its distribution network. As the result of the national scope of the foodservice business and recent efficiency improvements throughout SERCA's supply chain, fiscal 2001 operating income is expected to continue to grow as a percentage of sales.

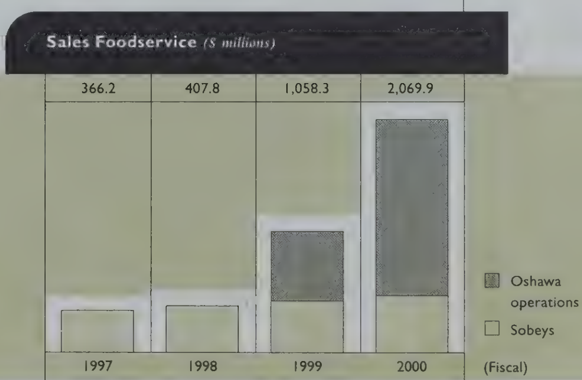
LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position continued to strengthen in fiscal 2000 and this trend is expected to continue in fiscal 2001. The total debt-to-equity ratio improved to 1.1:1 in fiscal 2000 from 1.5:1 in the prior year. Interest coverage (EBIT/interest expense) increased from 2.4X in 1999 to 2.8X in fiscal 2000. These favorable trends were a result of improved working capital management and strong operating cash flow, which allowed the retirement of more than $117 million in long-term debt.

Short-term liquidity was enhanced by improved cash flow from operations. Net cash provided by operations rose 17.8% to $306.2 million, compared to $260.0 million in fiscal 1999 and $91.7 million in fiscal 1998. The increases over the past three years reflect the Company's improved profitability,



An extra 31 weeks results of the former Oshawa results contributed $3.3 billion or 87.7% of this year's increase in food distribution sales.



An extra 31 weeks results of the former Oshawa operations contributed $914 million or 90.5% of this year's increase in foodservice sales.

significant working capital improvements, along with the increased scale of operations resulting from the Oshawa acquisition. Cash generated by operations was used to fund the capital expenditure programs and pay down debt, as explained in further detail in this section.

Cash flows used in investing activities decreased to $144.9 million in fiscal 2000, compared to $1.52 billion in fiscal 1999. The bulk of the change is attributable to investing activities in fiscal 1999 relating to the Oshawa acquisition.

In fiscal 2000, capital expenditures, net of disposals, decreased by $84.3 million to $112.4 million. The Company constructed a total of 48 new and replacement stores and renovated and expanded 103 existing stores during the year.

The Company continues to focus on its growth plans, which centre on a combination of new store openings and renovations, as well as growth through acquisitions as appropriate. Capital spending continues to be focused on projects that have high expected after-tax returns. The Company expects to open 52 new stores, replace 22 older stores and perform 99 major, and 556 minor, store renovations in fiscal 2001. Capital project activity is expected to total $641 million (5.6% of sales) in fiscal 2001, supported by $221 million in franchise and third party financing. Anticipated capital spending includes: approximately $381 million on new and replacement store construction; $134 million on renovations; $57 million related to information technology; $53 million related to distribution centres.

Cash flows used in financing activities were $182.2 million in fiscal 2000, compared to $1.3 billion in fiscal 1999. The majority of the change was caused by the financing activities in fiscal 1999 relating to the Oshawa acquisition. Capital spending for fiscal 2001 is expected to be financed through funds from operations, existing bank credit lines, third-party loans, franchisee spending, and sale-leasebacks to related parties. In fiscal 2001, $641 million in capital expenditures are expected to be financed through these methods. At year-end, the Company maintained bank credit facilities in excess of borrowings of $229 million.

DEBT

Short-term debt, comprised of bank loans and bankers' acceptances, amounted to $71.4 million (1999 – $122.5 million) at year-end. Long-term debt, comprised of $691.5 million in five-year term debt and $164.8 million of other long-term debt, as described in Note 6 of the financial statements, totaled $856.2 million (1999 – $973.9 million) at year-end. The fair value of long-term debt, excluding capital leases, is estimated to be $826 million (Note 13).

Realization of forecasted earning improvements coupled with the repayment of long-term debt is expected to further improve the financial condition of the Company.

During the year the Company repaid more than $117 million of long-term debt, and achieved a 37.5% basis point reduction in interest rates. Going forward, planned debt repayments are expected to increase net income through significantly reduced interest expense as the Company's debt retirement program progresses.

RECAPITALIZATION PLAN

After fiscal year-end, on June 22, 2000 Sobeys filed with securities regulators a short form shelf prospectus to establish an unsecured medium-term note program (MTN Program) which permits the issuance of up to $500 million in medium term notes (MTN's), from time to time over the next two years (Note 18). On June 29, 2000 Sobeys refinanced $810 million in secured bank debt by: *(a)* issuing $175 million Series A MTNs, with an interest rate of 7.6%, maturing November 1, 2005; *(b)* securitizing $210 million in trade and other receivables; and *(c)* negotiating a non-revolving $250 million unsecured bank credit facility to be repaid over 5 years and a $300 million revolving unsecured bank credit facility. As a result of this refinancing, the pre-tax borrowing costs of Sobeys are expected to be reduced by approximately $9 million per year.

ACCOUNTING POLICY CHANGES SUBSEQUENT TO FISCAL 2000

The CICA has issued two accounting standards, Section 3461 "Employee Future Benefits" and, Section 3465 "Income Taxes" effective for fiscal years beginning on or after January 1, 2000.

Section 3461 will redefine the way the cost of employee future benefits, including pension and other retirement and post-employment benefits, are to be measured. Instead of the current method of employing management's best estimate of the effect of future events, future benefits are now measured using market interest rates on high quality debt instruments. In addition, certain other retirement and post-employment benefits, currently funded on a cash basis, must be accounted for on an accrual basis in fiscal 2001. The annual benefit expense will depend on a number of market-driven variables outside the control of the Company, such as interest rates, future medical, health care cost trend rates, benefit plan changes and inflation rates.

Section 3465 will change the accepted method of accounting for income taxes from the deferred to the asset and liability method. Under this new method, future income taxes are recognized for the temporary differences between the tax and accounting bases of the Company's assets and liabilities based on expected income tax rates and laws during periods expected to be affected by these temporary changes.

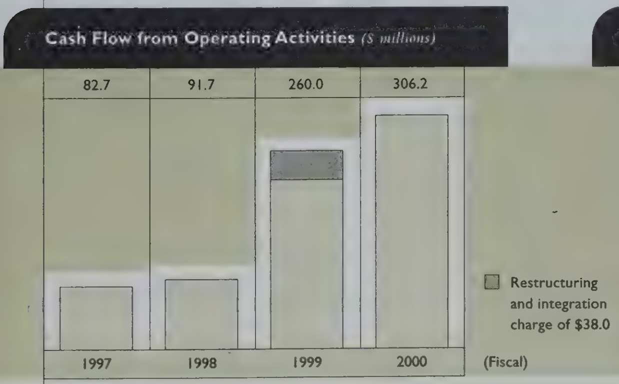
The Company intends to adopt both standards retroactively without restatement of prior periods. Therefore, in the first quarter of fiscal 2001, the effect of the initial adoption of section 3461 will be reported as an increase to goodwill of approximately $24 million and a decrease to retained earnings of approximately $5 million (net of income tax of $4 million). The initial adoption of section 3465 is not anticipated to have a material effect on Sobeys financial statements.

RISK AND RISK MANAGEMENT

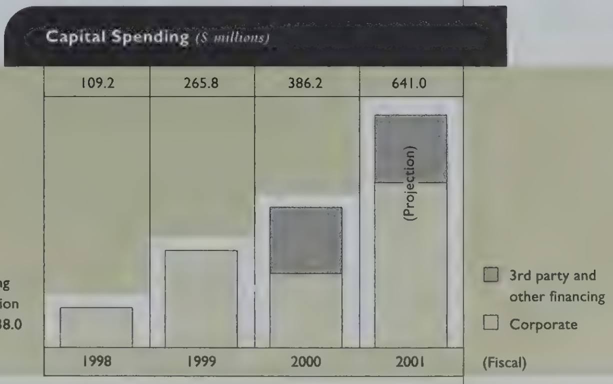
Given the mature structure of the Canadian food distribution industry, the most significant operating risk to the Company is the potential for reduced revenues and profit margins as a result of intense competition. To mitigate this risk, the Company's strategy is to be geographically diversified with a national presence, to be market-driven, to be focused on superior execution and to be supported by cost-effective operations. The Company is committed to tailoring its offerings to meet changing customer needs as well as providing consumers with greater value and product diversity.

The acquisition of Oshawa has presented Sobeys with many integration challenges and opportunities. Management is pleased to report that the actual annual integration savings exceeded the $35 million budgeted for fiscal 2000. As explained in the "Outlook" section, management anticipates the full $70 million in planned annual integration savings will be achieved by the end of fiscal 2001.

Subsequent to year-end, on June 15, 2000, 16 *IGA* franchisees in Ontario filed a statement of claim (Note 14) against the Company for alleged breach of franchise agreements between these 16 dealers and The Oshawa Group Limited claiming damages in the aggregate amount of approximately $262 million. The alleged breaches related to franchisee agreements date back to 1979 and all cases predate Sobeys'



Cash Flow from Operating Activities rose 17.8% to $306.2 million in fiscal 2000.



Total Capital Spending is expected to grow by 66% in fiscal 2000 to 5.6% of sales.

acquisition of Oshawa. Management's current assessments of these claims is that they are without merit and that the impact of both the commencement of the action and its eventual outcome on future profitability of Sobeys operations are negligible. No provision for these claims has been made in the Company's financial statements. It should be noted that Sobeys recently negotiated a new *IGA* franchise agreement for Ontario, which has been embraced by the vast majority of the 145 independent *IGA* franchisees in that province. By incorporating lower costs and incentive driven targets for Sobeys and our franchisees, the agreement is designed to enhance the sales and profitability of both parties.

Sobeys has adopted a number of key financial policies to manage financial risk.

In the ordinary course of managing its debt, the Company has entered into various interest rate and currency swaps, which are not reflected on the balance sheet. As explained in Notes 6 and 13 of the financial statements, the effect of these swaps is to fix the interest rate the Company pays on $691.5 million of debt. Subsequent to year-end, the Company unwound all currency swaps in conjunction with the debt recapitalization.

Sobeys is self-insured for limited risks while maintaining comprehensive loss prevention and management programs to mitigate retained risks. The range of non-insured related risk exposure is not expected to be material to the overall operations of the Company. The Company conducts an ongoing comprehensive environmental monitoring process and is unaware of any significant environmental liabilities.

Certain forward-looking statements are included in this annual report concerning capital expenditures, cost reduction and operating improvements. Such statements are subject to inherent uncertainties and risks, including but not limited to: general business and economic conditions in the Company's operating regions; pricing pressures and other competitive factors; results of the Company's ongoing efforts to reduce costs; the ability to continue to integrate the former Oshawa operations; and, the availability and terms of financing. Consequently, actual results and events may vary significantly from those included in or contemplated or implied by such statements.

YEAR 2000 UPDATE

The Company developed and implemented plans to address Year 2000 related exposures on its internal systems and equipment. In all critical areas of internal operating systems, the computer systems, embedded microprocessors and control systems were either replaced (many as part of an ongoing conversion to SAP, enterprise-wide information system) or made compliant by December 1999. The total cost of implementing the information technology plans, including Year 2000 compliance did not have a material impact on the financial condition of the Company (Note 1).

No significant Year 2000 problems have been encountered with the Company's internal systems and equipment.

OUTLOOK

Looking forward to fiscal 2001, management believes the Company is well positioned for strong growth in all of its markets. The continued success of its private label and customer loyalty programs, combined with ongoing store modernization initiatives, supply chain efficiency improvements, migration of best practices throughout the Company, and the continued development of core competencies should add significant potential for further growth and profitability.

The Company's original integration model was based on the achievement of $70 million in annual pre-tax integration savings within a two-year period, $35 million of which was to be realized in fiscal 2000. The Company has exceeded the first year target of $35 million and expects to achieve the full $70 million in pre-tax integration savings by the end of fiscal 2001.

The Canadian grocery distribution industry operates under a mature market structure. Competition continues to be intense, however there are currently no major price wars, as large players concentrate on integration issues and food price inflation is low. Sobeys' focus in this business environment is to: *(i)* emphasize the effective integration of its operations and acquisitions, *(ii)* reduce product and operational costs, *(iii)* expand, modernize and rationalize its banners, *(iv)* concentrate on improving distribution network efficiencies, and *(v)* enhance the Company's banner positioning.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of management. The financial statements have been prepared in accordance with appropriate and generally accepted accounting principles and reflect management's best estimates and judgements. All other financial information in the report is consistent with that contained in the financial statements.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The Audit Committee, which is chaired by and includes a majority of non-management directors, meets regularly with financial management and external auditors to satisfy itself as to the reliability and integrity of financial information and the safeguarding of assets. The Audit Committee reports its findings to the Board of Directors for consideration in approving the annual financial statements to be issued to shareholders. The external auditors have full and free access to the Audit Committee.

DOUGLAS B. STEWART
Vice-Chairman and
Chief Executive Officer
June 28, 2000

ALLAN D. ROWE
Executive Vice President and
Chief Financial Officer
June 28, 2000

AUDITORS' REPORT

To the Shareholders of Sobeys Inc.

We have audited the consolidated balance sheets of Sobeys Inc. as at May 6, 2000, May 1, 1999 and May 2, 1998, and the consolidated statements of earnings, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 6, 2000, May 1, 1999 and May 2, 1998, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

Grant Thornton LLP

New Glasgow, Nova Scotia
June 16, 2000, except as to Note 18(a) which is as of June 22, 2000.

GRANT THORNTON LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEET

(in thousands) May 6, 2000	2000	1999	1998
ASSETS			
Current			
Cash	$ 53,138	$ 71,133	$ 27,176
Short term investments, at cost (quoted market value $2,807; 1999 $5,445; 1998 $316,095)	1,689	4,546	315,205
Receivables	420,050	380,313	76,524
Current portion mortgages and loans receivable	59,264	14,010	765
Income taxes recoverable	8,322	9,623	–
Inventories	485,464	462,122	190,289
Prepaid expenses	40,963	31,284	8,446
Due from parent company	–	–	9,950
	1,068,890	973,031	628,355
Mortgages and loans receivable **(NOTE 3)**	103,632	144,633	9,853
Property and equipment **(NOTE 4)**	882,929	868,942	273,069
Goodwill (less accumulated amortization of $38,422; 1999 $18,850; 1998 $10,146)	714,871	734,335	4,676
Deferred income taxes	32,018	87,413	6,960
Deferred costs	88,659	70,463	–
	$ 2,890,999	$ 2,878,817	$ 922,913
LIABILITIES			
Current			
Bank loans **(NOTE 5)**	$ 6,368	$ 7,485	$ –
Bankers' acceptances **(NOTE 5)**	65,000	115,000	40,500
Commercial paper	–	–	50,000
Accounts payable and accrued charges	1,129,074	1,013,017	292,531
Income taxes payable	–	–	5,467
Long term debt due within one year	69,910	74,031	7,953
Due to parent company	–	–	200,000
	1,270,352	1,209,533	596,451
Long term debt **(NOTE 6)**	786,340	899,874	133,277
Deferred revenue	16,643	19,421	–
	2,073,335	2,128,828	729,728
SHAREHOLDERS' EQUITY			
Capital stock **(NOTE 7)**	647,289	647,207	66,801
Deferred foreign exchange translation gain (loss)	587	(230)	1,368
Retained earnings	169,788	103,012	125,016
	817,664	749,989	193,185
	$ 2,890,999	$ 2,878,817	$ 922,913

See accompanying notes to consolidated financial statements.

On Behalf of the Board

Director   *Director*

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(in thousands) Year Ended May 6, 2000	2000 (53 weeks)	1999 (52 weeks)	1998 (52 weeks)
Balance, beginning of year	$ 103,012	$ 125,016	$ 100,670
Net earnings (loss)	80,246	(8,074)	37,339
	183,258	116,942	138,009
Dividends paid	13,470	13,930	12,993
Balance, end of year	$ 169,788	$ 103,012	$ 125,016

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

(in thousands) Year Ended May 6, 2000	2000 (53 weeks)	1999 (52 weeks)	1998 (52 weeks)
Sales	$ 11,006,149	$ 6,231,838	$ 3,155,084
Cost of sales, selling and administrative expenses	10,642,508	6,038,344	3,049,530
Depreciation	98,055	72,415	43,600
Operating income	265,586	121,079	61,954
Interest expense			
Long term debt	79,781	46,104	15,749
Short term debt	9,094	197	(4,918)
	88,875	46,301	10,831
	176,711	74,778	51,123
Restructuring and integration charge **(NOTE 8)**	–	(85,143)	–
Operating earnings (loss) before the following items	176,711	(10,365)	51,123
Investment income	–	1,074	4,409
Minority interest (expense)	–	–	(10)
	176,711	(9,291)	55,522
Income taxes (recovery) **(NOTE 9)**			
Restructuring and integration charge	–	(38,017)	–
Other operations	77,541	27,820	16,375
	77,541	(10,197)	16,375
Earnings before goodwill charges	99,170	906	39,147
Goodwill charges **(NOTE 1)**	18,924	8,980	1,808
Net earnings (loss)	$ 80,246	$ (8,074)	$ 37,339
Earnings per share **(NOTE 10)**			
Earnings before goodwill charges	$ 1.77	$ 0.02	$ 1.73
Net earnings (loss)	$ 1.43	$ (0.22)	$ 1.65

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands) Year Ended May 6, 2000	2000 (53 weeks)	1999 (52 weeks)	1998 (52 weeks)
Operations			
Net earnings (loss)	**$ 80,246**	$ (8,074)	$ 37,339
Items not affecting cash **(NOTE 11)**	**181,648**	83,010	43,271
Restructuring and integration charge net of income taxes of $NIL (1999 $38,017; 1998 $NIL)	–	47,126	–
	261,894	122,062	80,610
Restructuring and integration charge **(NOTE 8)**	–	(85,143)	–
	261,894	36,919	80,610
Net change in other current items	**44,272**	223,031	11,119
Cash flows from operating activities	**306,166**	259,950	91,729
Investment			
Property and equipment	**(207,290)**	(265,839)	(109,197)
Proceeds on disposal of property and equipment	**94,910**	69,213	27,672
Long term investments and advances	**(3,925)**	(4,755)	7
Increase in deferred costs	**(29,262)**	(27,736)	–
Business acquisitions, net of cash acquired	**(108)**	(1,419,382)	(1,176)
Increase in deferred foreign currency translation gains	**817**	612	594
Parent company preference shares and note receivable **(NOTE 12)**	–	124,950	2,512
Buy-out of minority interest	–	–	(171)
Cash flows (used in) from investing activities	**(144,858)**	(1,522,937)	(79,759)
Financing			
Bank loans	**(1,117)**	7,485	–
Bankers' acceptances	**(50,000)**	74,500	3,000
Commercial paper	–	(50,000)	2,000
Issue of long term debt	**10,717**	913,656	597
Repayment of long term debt	**(128,372)**	(214,032)	(7,811)
Issue of capital stock	**82**	580,406	–
Receipt of deferred revenue	–	13,200	–
Payment of dividends	**(13,470)**	(13,930)	(12,993)
Cash flows (used in) from financing activities	**(182,160)**	1,311,285	(15,207)
Increase (decrease) in cash	**(20,852)**	48,298	(3,237)
Cash, beginning of year	**75,679**	27,381	30,618
Cash, end of year	**$ 54,827**	$ 75,679	$ 27,381
Cash is defined as cash and short term investments			
Operating cash flow before restructuring and integration charge per share **(NOTE 10)**	**$ 4.68**	$ 3.34	$ 3.56

See accompanying notes to consolidated financial statements.

(In thousands except share capital) May 6, 2000

1. ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and all subsidiary companies.

Depreciation

Depreciation is recorded on a straight line basis over the estimated useful lives of the assets as follows:

Equipment and vehicles	3 – 10 years
Buildings	15 – 40 years
Leasehold improvements	7 – 10 years

Inventories

Warehouse inventories are valued at the lower of cost and net realizable value with cost being substantially determined on a first-in, first-out basis. Retail inventories are valued at the lower of cost and net realizable value less normal profit margins as determined by the retail method of inventory valuation.

Leases

Leases meeting certain criteria are accounted for as capital leases. The imputed interest is charged against income and the capitalized value is depreciated on a straight line basis over its estimated useful life. Obligations under capital leases are reduced by rental payments net of imputed interest. All other leases are accounted for as operating leases with rental payments being expensed as incurred.

Goodwill

Goodwill represents the excess of the purchase price of the business acquired over the fair value of the underlying net tangible assets acquired at the date of acquisition. Goodwill is amortized on a straight line basis over its estimated life of 40 years. Goodwill charges are net of income tax recovery of $648 (1999 $422; 1998 $NIL).

The Company evaluates the carrying value of goodwill by considering whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation(s).

Interest capitalization

Interest related to the period of construction is capitalized as part of the cost of the related property and equipment. The amount of interest capitalized to construction in progress in the current year was $796 (1999 $391; 1998 $327).

Deferred revenue

Deferred revenue consists of a long term purchase agreement and rental revenue arising from the sale of subsidiaries. Deferred revenue is being taken into income over the term of the related agreement and leases.

Foreign currency

Assets and liabilities of self-sustaining foreign investments are translated at exchange rates prevailing at the balance sheet date. The revenues and expenses of the foreign operations are translated at average exchange rates prevailing during the year. The gains and losses on translation are deferred and included as a separate component of shareholders' equity titled "deferred foreign exchange translation gain/loss."

Development and store opening expenses

Development and opening expenses of new stores, store conversions and new warehouses are written off during the first year of operation.

Information systems development costs

Costs directly attributable to the development of core information system projects are capitalized and amortized over their estimated useful life of seven years. As at May 6, 2000 these costs were included in property and equipment in the amount of $74.7 million (1999 $47.3 million; 1998 $10.3 million). Amortization of certain of these costs will begin effective May 7, 2000.

Accounting estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future.

2. BUSINESS ACQUISITION

Sobeys Inc. ("Sobeys"), formerly Sobeys Canada Inc., was incorporated on October 27, 1998 as a wholly owned subsidiary of Empro Holdings Limited ("Empro"), an indirect wholly owned subsidiary of Empire Company Limited. On November 2, 1998 Sobeys acquired all the issued and outstanding shares of Sobeys Capital Inc. ("Sobeys Capital") from Empro for consideration of 22,646,500 common shares. This acquisition was accounted for as a continuity of interests and was treated in a manner similar to a pooling of interest. At the date of the combination, Sobeys had nominal assets and net book value, while Sobeys Capital had total assets of $980 million, total liabilities of $773 million and a net book value of $207 million.

On November 2, 1998 Sobeys acquired 972,700 Class "A" non-voting shares of The Oshawa Group Limited ("Oshawa") from Empro for $24 million, representing the carrying value of the shares held by Empro.

During the period from December 1, 1998 to January 25, 1999, Sobeys acquired all the remaining issued and outstanding Class "A" shares and all the issued and outstanding common shares of Oshawa, for combined consideration of cash of $1.1 billion and 21,252,502 common shares valued at $380 million. This acquisition was accounted for by the purchase method under which the results from operations of Oshawa, since the date of acquisition, were included in Sobeys financial statements. Details of the acquisition are as follows:

Fair value of identifiable assets acquired	$ 1,494,543
Less identifiable liabilities assumed	713,044
Fair value of identifiable net assets acquired	781,499
Goodwill	736,208
Total purchase consideration	$ 1,517,707
Consideration representing:	
Cash	$ 1,113,413
Common shares	404,294
	$ 1,517,707

3. MORTGAGES AND LOANS RECEIVABLE

	2000	1999	1998
Loans receivable	$ **97,017**	$ 92,479	$ 9,439
Mortgages receivable	**5,552**	51,640	–
Other	**1,063**	514	414
	$ **103,632**	$ 144,633	$ 9,853

Loans receivable

Loans receivable represent long-term financing to certain retail associates. These loans are primarily secured by inventory, fixtures and equipment, bear interest at rates which fluctuate with prime and have repayment terms up to ten years. The carrying amount of the loans receivable approximates fair value based on the variable interest rates charged on the loans and the operating relationship of the associates with the Company.

Mortgages receivable

The majority of the mortgages receivable balance relates to the sale of 24 retail properties by The Oshawa Group in calendar 1997.

The loans and mortgages receivable are net of a current portion of $59,264 (1999 $14,010; 1998 $765).

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	2000 Net Book Value
Land	$ 82,898	$ –	$ 82,898
Land held for development	60,030	–	60,030
Construction in progress	22,343	–	22,343
Buildings	297,839	94,761	203,078
Information systems development costs	74,681	–	74,681
Equipment	1,049,938	699,361	350,577
Leasehold improvements	183,880	99,584	84,296
Assets under capital leases	8,238	3,212	5,026
	$ 1,779,847	$ 896,918	$ 882,929

	Cost	Accumulated Depreciation	1999 Net Book Value	1998 Net Book Value
Land	$ 93,308	$ –	$ 93,308	$ 8,588
Land held for development	60,151	–	60,151	35,784
Construction in progress	21,340	–	21,340	13,475
Buildings	310,863	88,463	222,400	57,533
Information systems development costs	47,290	–	47,290	10,270
Equipment	998,705	655,695	343,010	133,453
Leasehold improvements	171,300	94,164	77,136	13,163
Assets under capital leases	7,189	2,882	4,307	803
	$ 1,710,146	$ 841,204	$ 868,942	$ 273,069

5. BANK LOANS AND BANKERS' ACCEPTANCES

Under the terms of a credit agreement entered into between the Company and a banking syndicate arranged by the Bank of Nova Scotia, a revolving term credit facility was established. This facility will expire on December 6, 2000, however various provisions of the agreement provide the Company with the ability to extend the facility for a minimum period of two years.

Interest is payable on this facility at rates which fluctuate with changes in the prime rate.

As security for this facility and the secured bank loans provided under the credit agreement, the Company has provided a fixed and floating charge over all assets, subject to permitted encumbrances, a general assignment of book debts and the assignment of proceeds of insurance policies.

6. LONG TERM DEBT

	2000	1999	1998
First mortgage loans, average interest rate 10.0%, due 2001 – 2016	$ 30,163	$ 33,931	$ 23,899
Secured bank loans, average interest rate 7.9%, due Dec. 9, 2005	691,490	800,000	–
Debentures, average interest rate 10.9%, due 2003 – 2013	102,775	109,338	115,900
Notes payable and other debt at interest rates fluctuating with the prime rate	21,194	17,529	425
	845,622	960,798	140,224
Capital lease obligations, 2001 – 2009, net of imputed interest	10,628	13,107	1,006
	856,250	973,905	141,230
Less amount due within one year	69,910	74,031	7,953
	$ 786,340	$ 899,874	$ 133,277

The company has fixed the interest rate on $104.6 million of its long term debt at 8.0% for 2 years and has fixed the interest rate on $586.9 million of its long term debt at 7.9% for 5 years by utilizing interest exchange agreements.

Included in first mortgage loans is U.S. dollar denominated debt with a Canadian dollar equivalent of $8,769 (1999 $8,709; 1998 $NIL). Secured bank loans include U.S. dollar debt with a Canadian dollar equivalent of $287,490 (1999 $300,000; 1998 $NIL).

Long term debt is secured by land and buildings, specific charges on certain assets and additional security as described in Note 5. Debt retirement payments and capital lease obligations in each of the next five fiscal years are:

	Long Term Debt	Capital Leases
2001	$ 68,038	$ 1,872
2002	98,030	1,808
2003	97,628	1,463
2004	105,546	1,378
2005	93,628	1,071

Operating leases

The net aggregate, annual, minimum rent payable under operating leases for fiscal 2001 is approximately $142,203 ($217,295 gross less expected sub-lease income of $75,092). The continuing annual net commitment is expected to be not less than $142,203.

7. CAPITAL STOCK

Authorized	Number of shares
2000 and 1999	
Preferred shares, par value of $25 each, issuable in series as a class	500,000,000
Preferred shares, without par value, issuable in series as a class	500,000,000
Common shares, without par value	500,000,000
1998	
Preferred shares par value of $10 each, non-cumulative, redeemable, issuable in series as a class	905,681
Common shares, without par value	1,000,000
Common shares, par value of $100 each	667,997

	Number of shares			Capital stock (in thousands)		
Issued and outstanding	**2000**	1999	1998	**2000**	1999	1998
Common shares, without par value	**56,303,261**	55,615,130	–	**$ 659,564**	$ 647,207	$ –
Common shares, without par value	–	–	207	**–**	–	1
Common shares, par value of $100 each	–	–	667,997	**–**	–	66,800
				659,564	647,207	66,801
Loans receivable and from officers employees under share purchase plan				**(12,275)**	–	–
Total capital stock				**$ 647,289**	$ 647,207	$ 66,801

During the current year, 688,131 common shares of Sobeys Inc. were issued under the Company's share purchase plan to certain officers and employees for $12,357.

Loans receivable from officers and employees of $12,275 under the Company's share purchase plan are classified as a reduction of Shareholder's Equity. Loan repayments will result in a corresponding increase in Capital Stock. The loans are non-interest bearing and non-recourse and are secured by 688,131 common shares of Sobeys Inc.

8. RESTRUCTURING AND INTEGRATION CHARGE

Subsequent to the acquisition of The Oshawa Group Limited on November 30, 1998, the Company commenced a comprehensive review of its strategic direction, facilities and staffing levels of all operations of the combined organizations. This integration initiative was undertaken to create operating efficiencies, cost savings and revenue enhancement opportunities. This project, which was substantially

completed in April 1999, brought together the operating groups of both business units and generated a new business plan for the future. In connection with the integration initiative, the Company recorded a $85.1 million charge ($47.1 million after tax) in the fourth quarter of fiscal 1999 for restructuring and integration. The amount remaining in liabilities at May 6, 2000 is $56.5 million (1999 $69.2 million).

Foodservice segment

$45.2 million of the restructuring and integration charge related to the Foodservice segment and involved the rationalization of operations and modernization of the distribution supply network. These activities commenced in late 1999 and will continue in 2001. The charge to exit these activities was comprised of severance and other obligations to employees, lease commitments for closed locations and other charges.

Food Distribution segment

The remaining charge of $39.9 million related to the Food Distribution segment. The rationalization of Ontario operations accounted for the majority of this charge. It included severance and other obligations to employees and other charges resulting from the closure of 17 smaller marginal stores in Ontario, the franchising of 56 corporate owned stores and the streamlining of certain department operations in Ontario. These activities commenced in late 1999 and will continue in 2001. The remaining charge for the Food Distribution segment included severance and other costs associated with the roll out of Sobeys' common information systems across acquired business units.

9. INCOME TAXES

The effective rate of corporate income taxes varies from statutory rates as a result of the large corporation tax of $2,176 (1999 $1,285; 1998 $383) and the amortization of goodwill being non-deductible for income tax purposes.

10. EARNINGS AND CASH FLOW PER SHARE

Earnings and cash flow per share amounts are calculated on the weighted average number of shares outstanding (2000 – 55,988,892; 1999 – 36,518,471; 1998 – 22,646,500).

	2000	1999	1998
Earnings before restructuring and integration and goodwill charges	$ 99,170	$ 48,032	$ 39,147
Restructuring and integration charge net of income taxes of $38,017	–	(47,126)	–
Earnings before goodwill charges	99,170	906	39,147
Goodwill charges net of income taxes	18,924	8,980	1,808
Net earnings (loss)	$ 80,246	$ (8,074)	$ 37,339
Earnings per share is comprised of the following:			
Earnings before restructuring and integration and goodwill charges	$ 1.77	$ 1.31	$ 1.73
Restructuring and integration charge net of income taxes	–	(1.29)	–
Earnings before goodwill charges	1.77	0.02	1.73
Goodwill charges net of income taxes	0.34	0.24	0.08
Net earnings (loss)	$ 1.43	$ (0.22)	$ 1.65

11. SUPPLEMENTARY CASH FLOW INFORMATION

a) Items not affecting cash	2000	1999	1998
Depreciation	$ 98,055	$ 72,415	$ 43,600
Goodwill amortization	19,572	9,402	1,808
Deferred income taxes	55,395	(7,584)	(2,129)
(Gain) loss on disposal of assets	338	(2,191)	(8)
Writedown of property and equipment	–	10,300	–
Amortization of deferred items	8,288	668	–
	$ 181,648	$ 83,010	$ 43,271
b) Other items			
Net interest paid	$ 95,281	$ 43,754	$ 11,376
Net income taxes paid	$ 20,197	$ 44,933	$ 16,182

12. RELATED PARTY TRANSACTIONS

The Company leased certain real property from related parties during the year. The aggregate net payments under these leases amounted to approximately $48,154 (1999 $45,535; 1998 $39,880). The Company was charged expenses of $260 (1999 $60; 1998 $80) by related parties.

On November 30, 1998, prior to Sobeys acquisition of 100% of the capital stock of The Oshawa Group Limited, $315,000 of preferred shares of the parent company (Empire) were redeemed, a $9,950 due from parent company was repaid and a $200,000 due to parent company was repaid.

For 1998, these intercompany investments (preferred shares and note receivable) have been shown as "other assets" in the "identifiable assets" section of Note 15.

Interest expense paid to the parent company was $NIL (1999 $6,627; 1998 $6,946). Interest income received from the parent company was $NIL (1999 $501; 1998 $1,027).

13. FINANCIAL INSTRUMENTS

Foreign exchange contracts

The Company utilizes financial instruments which are not reflected on the balance sheet to reduce foreign exchange risks on its U.S. long term debt. At May 6, 2000, $186.8 million U.S. was covered by such instruments with $43.2 million U.S. maturing in 2002 and $143.6 million U.S. maturing in 2005.

The fair value of the foreign exchange agreements represents the amount the Company would pay or receive to terminate the agreements. At May 6, 2000, if terminated, the estimated amount receivable would be $2.9 million Canadian.

All the financial instrument contracts are with Canadian Schedule 1 Banks.

Credit risk

There is no significant concentration of credit risk. The credit risk exposure is considered normal for the business.

Other financial instruments

The book value of cash, receivables, income taxes recoverable, loans and mortgages receivable, bank loans, bankers' acceptances and accounts payable and accrued charges approximate fair values at May 6, 2000. The fair value of marketable securities is $2.80 million.

The total fair value of long term debt is estimated to be $826 million. The fair value of variable rate long term debt is assumed to approximate its carrying amount. The fair value of other long term debt has been estimated by discounting future cash flows at a rate currently offered for debt of similar maturities and credit quality.

14. CONTINGENT LIABILITIES

Guarantees and commitments

The Company has undertaken to provide cash to meet any obligations which Sobey Leased Properties Limited (a wholly owned subsidiary of Empire Company Limited) is unable or fails to meet until all of its debentures have been paid in full in accordance with their terms. Any deficiency payment made by the Company will be by purchase of fully-paid non-assessable 5% redeemable, non-voting preference shares of that company. The aggregated outstanding principal amounts of these debentures at May 6, 2000 is $46,740.

At May 6, 2000 the Company was contingently liable for letters of credit issued in the aggregate amount of $27,500.

The Company has guaranteed certain bank loans contracted by franchisees. As at May 6, 2000, these loans amounted to approximately $23,300.

Legal proceedings

Subsequent to year-end, the Company received notice that a Statement of Claim had been filed against it and its subsidiary, Sobeys Capital Inc., by 16 of its independent IGA retail dealers in the Province of Ontario. The legal action is in connection with an alleged breach of franchise agreements between these 16 dealers and the former Oshawa Group Limited and claims damages of up to $262 million for breach of contract, general and punitive damages. Sobeys Inc. purchased all of the outstanding shares of The Oshawa Group Limited in December 1998 and January 1999, and completed an amalgamation of The Oshawa Group Limited and Sobeys Capital Inc. in May, 1999. Sobeys disagrees with each of the claims raised by the 16 independent IGA dealers in the Statement of Claim and believes that this action is frivolous and without merit; therefore no provision for these claims has been made in the financial statements.

15. SEGMENTED INFORMATION

	2000	1999	1998
Sales			
Food Distribution	$ 8,936,259	$ 5,173,516	$ 2,747,308
Foodservice	2,069,890	1,058,322	407,776
	11,006,149	6,231,838	3,155,084
Operating income			
Food Distribution	231,785	103,477	47,701
Foodservice	33,801	17,602	14,253
	265,586	121,079	61,954
Identifiable assets			
Food Distribution	1,810,134	1,766,838	513,906
Foodservice	365,994	377,644	79,381
Other (NOTE 12)	–	–	324,950
Goodwill	714,871	734,335	4,676
	2,890,999	2,878,817	922,913
Depreciation			
Food Distribution	86,529	64,915	40,920
Foodservice	11,526	7,500	2,680
	98,055	72,415	43,600
Capital expenditures			
Food Distribution	192,575	249,159	105,575
Foodservice	14,715	16,680	3,622
	$ 207,290	$ 265,839	$ 109,197

The Company operates principally in two business segments, food distribution and foodservice. The food distribution segment consists of the distribution of food products through a retail network in all provinces of Canada. The foodservice segment distributes foodservice products to primarily hospitality, institutional and commercial customers throughout Canada.

16. PENSION PLAN

The Company maintains a defined contribution plan and a number of defined benefit pension plans. Current actuarial estimates indicate the pension benefits under the defined benefit plans at April 30, 2000 are $167,975 and the pension fund assets, using the moving average market value are $185,768.

17. COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to reflect the current year's presentation.

18. SUBSEQUENT EVENT

The Company is in the process of restructuring its debt and credit facilities as follows:

a) On June 22, 2000 a short form prospectus was filed providing for the issuance of up to $500 million of unsecured medium term notes.

b) The Company anticipates receiving $210 million in cash proceeds from an accounts receivable securitization which, when received, will be applied against existing debt.

c) The Company is negotiating a new unsecured $550 million credit facility consisting of $250 million of non revolving debt to be repaid over 5 years plus a $300 million revolving line of credit.

BOARD OF DIRECTORS AND OFFICERS

EXECUTIVE DIRECTORS

David F. Sobey(4)
Chairman, Sobeys Inc.

Donald R. Sobey(4)
Chairman, Empire Company Limited

John R. Sobey(4)
President and COO, Sobeys Inc.

Karl R. Sobey
President, Atlantic Division

Paul D. Sobey(2)(6)
President and CEO,
Empire Company Limited

Douglas B. Stewart(4)
Vice-Chairman and CEO, Sobeys Inc.

INDEPENDENT DIRECTORS

John L. Bragg(1)
Collingwood, Nova Scotia
President,
Oxford Frozen Foods Limited

Marcel Côté(4)
Montreal, Quebec
Senior Partner, Secor Inc.

Sir Graham Day(5)
Hantsport, Nova Scotia
Counsel to Stewart
McKelvey Stirling Scales

Robert P. Dexter(2)(6)
Halifax, Nova Scotia
Chairman and CEO,
Maritime Travel (Group) Limited

Hugh G. Farrington(3)
Cape Elizabeth, Maine
President and CEO,
Hannaford Bros. Co.

Ronald V. Joyce(4)
Calgary, Alberta
Senior Chairman,
The TDL Group Limited

Lawrence N. Stevenson(6)
Toronto, Ontario
CEO, Chapters Inc.

Annette Verschuren(4)
Toronto, Ontario
President,
Home Depot Canada

(1) Audit Committee Chairman
(2) Audit Committee Member
(3) Human Resources Committee Chairman
(4) Human Resources Committee Member
(5) Corporate Governance Committee Chairman
(6) Corporate Governance Committee Member

OFFICERS

David F. Sobey
Chairman

Douglas B. Stewart
Vice-Chairman and CEO

John R. Sobey
President and COO

Allan D. Rowe
Executive Vice President and CFO

Karl R. Sobey
President, Atlantic Division

Pierre Croteau
President, Quebec Division

Bruce West
President, Ontario Division

Wayne A. Wagner
President, Western Division

Gary H. Seaman
President, SERCA Foodservice Inc.

John K. Lynn
Executive Vice President,
Planning and Development

Darrell R. Ewert
General Counsel and Secretary

INVESTOR INFORMATION

SOBEYS INC.

Head Office
115 King Street
Stellarton, Nova Scotia
B0K 1S0
Telephone: (902) 752-8371
Fax: (902) 752-2960

Investor Relations
For additional information
please write to the Company,
c/o Allan D. Rowe,
Executive Vice President and
Chief Financial Officer

Web Addresses
www.sobeys.ca or www.sobeys.com
www.empireco.ca or www.emp-a.com

Shareholders' Annual Meeting
September 6, 2000 at 11:00 a.m.
Aberdeen Cinemas
610 East River Road
New Glasgow, Nova Scotia

Stock Exchange Listings
The Toronto Stock Exchange

Stock Symbols
Common Shares – SBY

Average Daily Trading Volume (TSE)
55,000

Common Dividend Record and Payment Dates for Fiscal 2001*

Record Date	Payment Date
July 14, 2000	July 28, 2000
Oct. 13, 2000	Oct. 31, 2000
Jan. 15, 2001	Jan. 31, 2001
Apr. 13, 2001	Apr. 30, 2001

**subject to approval by Board of Directors*

Outstanding Shares
As of July 7, 2000
Common shares outstanding 56,429,273

Transfer Agents
Montreal Trust Company of Canada
Telephone: (902) 420-2211

Bankers
Bank of America (Canada)
Bank of Montreal
Bank of Nova Scotia
National Bank of Canada
Toronto-Dominion Bank

Solicitors
Stewart McKelvey Stirling Scales
Halifax, Nova Scotia

Auditors
Grant Thornton
New Glasgow, Nova Scotia

Multiple Mailings
If you have more than one account, you may receive a separate annual report for each. If this occurs, please contact Montreal Trust at (902) 420-2211 to eliminate the multiple mailings.

Exemplaire français
Vous pouvez obtenir un exemplaire français de ce rapport annuel en écrivant à :
Sobeys Inc.
Investor Relations
115 King Street
Stellarton, Nova Scotia
B0K 1S0

DESIGNED AND PRODUCED: CRAIB CORPORATE GRAPHICS EDITORIAL SERVICES: BLUNN & COMPANY INC. PRINTING: EASTERN SIGN-PRINT LTD., STELLARTON, NOVA SCOTIA

Sobeys

www.sobeys.com